Wealth Management
Weekly Market Update

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Market Update

Last week global equities drifted lower, with a broad Moody's downgrade of US banking stocks and weak Chinese consumer and producer data contributing. US tech stocks also dipped midweek ahead of the US inflation report, however the month-on-month figure came in at only 0.2%. Despite the better-than-expected inflation print, Nvidia lost c.-10% over the week. Globally tech was the worst performing sector, while energy equities benefitted from the rise in oil prices (+0.5% in US Dollar terms) and the healthcare sector was boosted by Novo Nordisk's positive obesity drug trial news. Sterling was mixed, falling -0.4% against a rallying US Dollar, but gaining against other major currencies. This meant that the return for global equities in Sterling terms was essentially flat. Yields fell initially but were up in both the US and the UK by the end of the week, so delivering a negative return. Gold also fell -1.5% in US Dollar terms.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▼ -0.1%	▲ +0.2%	▶ +0.0%	▶ +0.0%	▼ -1.6%	▼ -0.2%	▼ -1.1%	▼ -0.4%

all returns in GBP to Friday close

Macro News

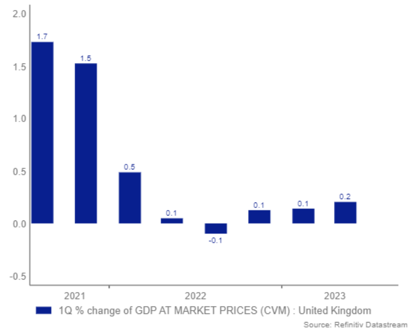
- Consumer prices in the US rose by 3.2% year-on-year in July, marking the first increase in this rate since June 2022. The figure was slightly below expectations as soft data in July 2022 was expected to lead to a re-acceleration in the rate due to base effects. On a month-on-month basis, inflation was unchanged from June at 0.2%. Shelter accounted for 90% of July's increase.
- The UK economy grew by 0.2% in the second quarter of 2023, a higher-than-expected figure which will put more pressure on the Bank of England to hike interest rates further. Growth in June was particularly strong as manufacturing and construction output rebounded more than expected following the loss of a working day for King Charles III's coronation. Output grew by 0.5% in June, more than double the 0.2% figure expected by economists.
- China's consumer prices fell into deflation as headline CPI fell by 0.3% year-on-year, the first fall in prices in 2 years. Producer prices also dropped by 4.4% year-on-year.

The Week Ahead

- This week will be a heavy week for macroeconomic data releases. In the UK, employment, retail sales and inflation data will be the ones to watch. In the US, housing data, retail sales and FOMC minutes will be in focus. GDP figures for Japan and Europe will also be released this week.

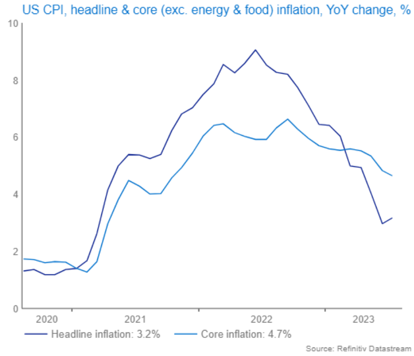
Week in Charts

UK GDP beats expectations
UK GDP QoQ % change



UK GDP grew by 0.2% in the second quarter of 2023, beating economist expectations of a 0% stagnation. Growth in June was 0.5%, more than double the consensus of 0.2%

US inflation accelerates for the first time in 13 months
US CPI, headline & core (exc. energy & food) inflation, YoY change, %



US inflation showed a slight re-acceleration in July due to base effects, rising by 3.2% year-on-year. Core inflation, which excludes the volatile components of food and energy continued to fall, coming in a rate of 4.7% year-on-year, from a value of 4.8% in the previous month.

View From the Desk

Last Friday, UK GDP came in a tick higher than expected. Instead of the stagnant 0% expected by economists, the UK economy expanded by 0.2% over the three months to June. In this case, a 0.2% surprise is by no means insignificant. The fact that the economy was able to eke out growth in the face of already aggressive interest rate hikes will galvanise the Bank of England's zeal to continue tightening monetary policy. Persistent inflation and runaway wage growth will be the BOE's Public Enemy No.1, while faltering consumer confidence and business surveys will become an afterthought.

Employment data points towards a slackening labour market, with staff availability rising, fewer staff appointments, and the number of redundancies growing. While new vacancies are still growing, the rate of growth is as low as it has been for 2.5 years. BOE Survey data supports a softening employment market. However, because of low unemployment, wage inflation will likely remain robust, given the dynamics across both public and private sectors. Industrial action in the public sector is proving effective and has emboldened trade unions, whilst the private sector is submitting to higher wages to avoid having to recruit from a tight labour market. This latter example of labour hoarding is a feature of companies being pragmatic in an economy where the labour force growth has levelled off over recent years due to the pandemic and a smaller pool of immigrant labour. This is a delicately balanced dynamic which is currently in favour of labour, but which could turn quickly in the event of slowing economic activity.

This week's UK CPI print will likely come in lower than last month, due to base effects and survey reports which point to more fluid supply chains. We do not expect that the higher GDP data to be enough to derail that. It is true that corporates are enjoying an environment where input prices can be passed through to consumers more easily, but the cost of debt servicing means that households are being forced to be more circumspect about their discretionary spending which may cause inflationary pressures to ease. However, given the structural resilience we see in the labour market and services sector, the test will be whether the number is low enough to take the pressure off the Bank of England to keep raising rates, particularly as we do not see inflation falling back to anywhere near 2% this year.

The age-old question of just how long it takes for rate rises to impact the real economy is now more pertinent than ever. But now that the economy is showing some resilience, we suspect that we will not have seen the end of rate rises.

David Baker - CIO

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